

FETAKGOMO LOCAL MUNICIPALITY



FRAUD AND CORRUPTION PREVENTION STRATEGY

2015/2016

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1 Introduction

1.1 Statement of attitude to fraud

Fraud represents a significant potential risk to the Municipality's assets and reputation. The Municipality is committed to protecting its funds and other assets. The Municipality will not tolerate corrupt or fraudulent activities whether internal or external to the organisation, and will vigorously pursue and prosecute any parties, by all legal means available, which engage in such practices or attempt to do so.

1.2 The Public Service Anti-Corruption Strategy

During 1997, Government initiated a national anti-corruption campaign. This campaign progressed to a National Anti-corruption Summit held in April 1999 at which all sectors of society (public and private) committed themselves to establishing sectoral anti-corruption strategies. At the same time, they also committed to the co-responsibility for fighting corruption through the coordination of these sectoral strategies. A range of other resolutions emanated from this Summit and all the sectors committed to implementing these.

The Department of Public Service and Administration (DPSA) was instructed to forge various initiatives across the public service into a coherent strategy with the support of other Departments. A Public Service Task Team (PSTT) consisting of key Departments was convened for this task and representation from local government and public entities were included in order to establish a platform for the roll-out of the strategy to the whole of the Public Sector (Public Service, Local Government and Public Entities).

1.3 The Local Government Anti-Corruption Strategy

Local Government developed The Local Government Anti-Corruption Strategy (LGACS), which is modelled around the Public Service Anti-Corruption Strategy. The main principles upon which the LGACS is based are the following:

- a) Creating a culture within municipalities, which is intolerant to unethical conduct, fraud and corruption;
- b) Strengthening community participation in the fight against corruption in municipalities;
- c) Strengthening relationships, with key stakeholders, that are necessary to support the actions required to fight corruption in municipalities, for example, South African Local Government Association (SALGA), Employee Representative Unions, and Communities;
- d) Deterring and preventing of unethical conduct, fraud and corruption;
- e) Detecting and investigating unethical conduct, fraud and corruption;
- f) Taking appropriate action in the event of irregularities, for example, disciplinary action, recovery of losses, prosecution, etc.; and
- g) Applying sanctions, which include redress in respect of financial losses.

1.4 Fetakgomo Local Municipality's Anti-Fraud and Corruption Strategy and Prevention Plan

This Anti-Corruption Strategy and Fraud Prevention Plan has been developed as a result of the expressed commitment of Government to fight corruption. It is also an important contribution to the National Anti-Corruption Strategy of the country and supplements both the Public Service Anti-Corruption Strategy and the Local Government Anti-Corruption Strategy.

1.5 Definition of Fraud and Corruption

In South Africa, the Common Law offence of **fraud** is defined as "*the unlawful and intentional making of a misrepresentation which causes actual and or potential prejudice to another*". The term "*fraud*" is also used in a wider sense by the general public. In this regard, the term is used in this document in its widest possible meaning and is intended to include all aspects of economic crime and acts of dishonesty. In other words, fraud can be described as any conduct or behaviour of which a dishonest representation and/or appropriation forms an element.

The general offence of **corruption** is contained in Section 3 of The Prevention and Combating of Corrupt Activities Act.

This section provides that any person who gives or accepts or agrees or offers to accept/receive any gratification from another person in order to influence such other person in a manner that amounts to:

- a) The illegal or unauthorised performance of such other person's powers, duties or functions;
- b) An abuse of authority, a breach of trust, or the violation of a legal duty or a set of rules;
- c) The achievement of an unjustified result; or
- d) Any other unauthorised or improper inducement to do or not to do anything is guilty of the offence of Corruption.

Corruption in its wider meaning, and as referred to in this document, includes any conduct or behaviour where a person accepts, agrees or offers any gratification for him/her or for another person where the purpose is to act dishonestly or illegally. Such behaviour also includes the misuse of material or information, abuse of a position of authority or a breach of trust or violation of duty.

1.5.1 Forms of corruption

Corruption takes various forms in the public service and elsewhere in society. The following are examples of different types of corruption.

1.5.1.1 Bribery

Bribery involves the promise, offering or giving of a benefit that improperly affects the actions or decisions of public servants.

1.5.1.2 Embezzlement

This involves theft of resources by persons who control such resources.

1.5.1.3 Fraud

Any conduct or behaviour of which a dishonest representation and/or appropriation forms an elements.

1.5.1.4 Extortion

Coercion of a person or entity to provide a benefit to a public servant, another person or an entity, in exchange for acting (or failing to act) in a particular manner.

1.5.1.5 Abuse of power

The use by a public servant of his or her vested authority to improperly benefit another public servant, person or entity (or using vested authority to improperly discriminate against another public servant, person or entity).

1.5.1.6 Conflict of interest

The failure by a public servant to act or to consciously fail to act on a matter where the public servant has an interest or another person or entity that has some form of relationship with the public servant has an interest.

1.5.1.7 Abuse of privileged information

This involves the use, by a public servant of privileged information and knowledge that a public servant possesses as a result of his/ her office to provide unfair advantage to another person or entity to obtain a benefit.

1.5.1.8 Favouritism

The provision of services or resources according to personal affiliation (for example cultural or religious) of a public servant.

1.5.1.9 Nepotism

A public servant ensuring that family members are appointed to public service positions or that family members receive contracts from the state, is regarded as nepotism.

These manifestations are by no means exhaustive as corruption appears in many forms and it is virtually impossible to list all of these.

Section 5 of the Act creates an offence if a person knows or ought reasonably to have known that another person has obtained the proceeds of unlawful activities and provides assistance to such other person regarding the use or retention of such property.

Section 6 of the Act creates an offence if a person knows or ought reasonably to have known that property is or forms part of the proceeds of unlawful activities and acquires uses or possesses such property.

The above offences are regarded as very serious and the Act contains exceptionally harsh penalties relating to these offences. A person convicted of one of the above offences is liable to a maximum fine of R100 million or to imprisonment for a period not exceeding 30 years.

2.1.3 Financial Intelligence Centre Act, 38 of 2001 (FICA)

The Financial Intelligence Centre Act, as amended, (generally referred to as "FICA") was signed by the President in November 2001. Its provisions were implemented over time, commencing during January 2002.

The Act (FICA) establishes a Financial Intelligence Centre and a Money Laundering Advisory Council. The purpose of these entities is to combat money laundering activities.

FICA imposes certain reporting duties and compliance obligations.

The Act imposes compliance obligations on so-called "*accountable institutions*" which are defined in Schedule 1 to the Act. These obligations include:

- a) A duty to identify clients;
- b) A duty to retain records of certain business transactions;
- c) A duty to report certain transactions; and
- d) The adoption of measures to ensure compliance, namely, the implementation of so-called "*internal rules*", provision of training etc.

Regarding the reporting of suspicious transactions, FICA makes provision for a duty to report "*suspicious or unusual transactions*". In this regard it provides that any person who carries on a business or who manages, is in charge of or is employed by a business and who knows or suspects certain facts has a duty to report their knowledge or suspicion to the FIC within a prescribed period. Matters that require reporting include knowledge or suspicion of the following:
The receipt of proceeds of unlawful activities;

- a) Transactions which are likely to facilitate the transfer of proceeds of unlawful activities;
- b) Transactions conducted to avoid giving rise to a reporting duty under FICA;
- c) Transactions that have no apparent business or lawful purpose;
- d) Transactions relevant to the investigation of tax evasion; or
- e) The use of a business entity for money laundering purposes.

A person who fails to make a report as required commits an offence and is liable to a fine not exceeding R10 million or imprisonment not exceeding 15 years.

2.1.4 Protection of Constitutional Democracy Against Terrorist and Related Activities Act, Act 33 of 2004 ("POCDATARA")

On May 20, 2005, the Protection of Constitutional Democracy Against Terrorist and Related Activities Act (POCDATARA) came into effect criminalizing terrorist activity and terrorist financing and gave the government investigative and asset seizure powers in cases of suspected terrorist activity.

POCDATARA provides for two new reporting obligations under section 28A and section 29 of FICA. The Money Laundering Control Regulations under FICA, have also been amended, with effect from 20 May 2005, for this purpose. The amended regulations now provide for detailed reporting related to terrorist financing, under new sections 28A and 29 of FICA.

The POCDATARA amends section 29 of FICA to extend the reporting of suspicious and unusual transactions to cover transactions relating to "*property which is connected to an offence relating to the financing of terrorist and related activities*" or to "*the financing of terrorist and related activities*". The POCDATARA introduces a new section 28A of FICA that requires the reporting of any property that is associated with terrorist and related activities to the FICA.

2.2 Statutes combating fraud and corruption

2.2.1 Protected Disclosures Act, 26 of 2000

The Protected Disclosures Act was promulgated to facilitate reporting by employees (whistle blowers) of fraud, corruption or other unlawful or irregular actions by their employer(s) or co-employees without fear of any discrimination or reprisal by their employers or co-employees.

Any employee who has information of fraud, corruption or other unlawful or irregular action(s) by his/her employer(s) or co-employees can report such actions, provided that he/she has information that:

- a) A crime has been, is being, or is likely to be committed by the employer or employee(s);
- b) The employer or employees has/have failed to comply with an obligation imposed by law;
- c) A miscarriage of justice has or will likely occur because of the employer's or employee(s) actions;
- d) The health or safety of an individual has been, is being, or is likely to be endangered;
- e) The environment has been, is being or is likely to be endangered;
- f) Unfair discrimination has been or is being practiced; or
- g) Any of the above has been, is being, or is likely to be concealed.

The Act prohibits the employer from:

- a) Dismissing, suspending, demoting, harassing or intimidating the employee;
- b) Subjecting the employee to disciplinary action;
- c) Transferring the employee against his or her will;
- d) Refusing due transfer or promotion;
- e) Altering the employment conditions of the employee unilaterally;

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- f) Refusing the employee a reference or providing him/her with an adverse reference;
- g) Denying appointment;
- h) Threatening the employee with any of the above; or
- i) Otherwise affecting the employee negatively if the disclosure is made in terms of the Act.

2.2.2 Municipal Finance Management Act 2003 ("MFMA")

The MFMA was promulgated to facilitate the formal management of municipal finances and associated activities.

The controls and administrative systems implemented by any Municipality are very relevant to the content of the Act. Certain aspects of the Act refer specifically to activities which might be regarded as being corrupt or fraudulent in nature. Some relevant aspects are as follows:

2.2.2.1 *Unauthorised, irregular or fruitless and wasteful expenditure*

Section 32 of the Act indicates that, without limiting the liability of the common law or other legislation, the following office bearers in a Municipality are mandated with certain responsibilities, as follows:

- (a) A political office bearer of a Municipality is liable for unauthorised expenditure if that office bearer knowingly instructed an official of the Municipality to incur expenditure, which was likely to be considered unauthorised expenditure;
- (b) The accounting officer (ie Municipal Manager) is liable for unauthorised expenditure deliberately or negligently incurred by the accounting officer, unless the expenditure was incurred following a decision by the mayor or executive committee of the Municipality, resulting in fruitless or wasteful expenditure, provided that the accounting officer has notified the council, the mayor or the executive committee, in writing, that the expenditure is likely to be considered unauthorised, irregular or fruitless and wasteful;
- (c) Any political office bearer or official of a Municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure;
- (d) Any political office bearer or official of a Municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.

Furthermore, in the event of such unauthorised, irregular or wasteful expenditure, the Municipality is required to recover the expenditure from the person liable for the expenditure, unless, the council retrospectively authorises/condones the expenditure on the grounds that it represented an authorised adjustment, or that it is deemed irrecoverable and written off by the council.

The writing off of the expenditure by the council, however, is no excuse in criminal or disciplinary proceedings against the person. The writing off of the expenditure does not signify a condoning of the expenditure.

In the event of unauthorised expenditure, the accounting officer is obliged to advise promptly the mayor, the MEC for local government in the province and the Auditor General, in writing, providing details as to:

2.2.2.6 Financial misconduct by municipal officials

Section 171 sets out the stipulations relating to disciplinary proceedings to be adopted in the event of financial misconduct by municipal officials.

The accounting officer commits financial misconduct if he/she deliberately or negligently:

- (a) Contravenes the provisions of the Act;
- (b) Fails to comply with a duty imposed by a provision of the Act on the accounting officer of a Municipality;
- (c) Permits or instructs another official of the Municipality to make an unauthorised, irregular or fruitless and wasteful expenditure;
- (d) Provides incorrect or misleading information in any document which, in terms of the Act, must be submitted to the mayor, council, Auditor General, National Treasury or other organ of state, or made public.

The chief financial officer of a Municipality commits an act of financial misconduct if he/she fails to carry out delegated duties in terms of the Act. In addition financial misconduct is committed if he/she permits or instructs another official to make unauthorised or fruitless and wasteful expenditure, or provides incorrect or misleading information to the accounting officer.

The Act stipulates further, under this paragraph, that a Municipality must:

- (a) Investigate allegations of financial misconduct against the accounting officer, the chief financial officer, senior manager or other official of the Municipality unless those allegations are frivolous; and
- (b) If the investigation warrants it, institute disciplinary proceedings against the accounting officer, chief financial officer or any other official in accordance with stipulations set out in the Municipal Systems Act.

2.2.3 Municipal Systems Act, No 32 of 2000 ("MSA")

The MSA sets out procedures to be adopted by municipal management with regard to a number of aspects affecting the management of a Municipality. The Act also stipulates procedures to be adopted with regard to certain aspects related to misconduct and the investigation thereof.

2.2.3.1 Human resource development

In section 67, the Act stipulates that a Municipality, in accordance with the Employment Equity Act, 1998, must develop and adopt appropriate systems and procedures to ensure, *inter alia*, the investigation of allegations of misconduct and complaints against staff.

2.2.3.2 Code of conduct

Sections 69 and 70 of the Act deal with the Code of Conduct, details of which appear in Schedule 2 of the Act, to be provided to staff members and communicated to the local community. The municipal manager of a Municipality must:

- (a) Provide a copy of the Code of Conduct to every member of the municipal staff;
- (b) Provide every member of staff with any amendments to the Code;

- (c) Ensure that the purpose, contents and consequences of the Code of Conduct are explained to staff members who cannot read; and
- (d) Communicate sections of the Code of Conduct that affect the public, to the local community.

2.2.3.3 Rewards, gifts and favours

Under section 9 of the Act, it is stipulated that a councillor may not request, solicit or accept any reward, gift or favour for:

- (a) Voting in a particular manner
- (b) Persuading the council or any committee in regard to the exercise of any power, function or duty;
- (c) Making representation to the council; or
- (d) Disclosing privileged or confidential information.

2.2.3.4 Duty of chairpersons of municipal councils with regard to council property

A councillor may not use, take or acquire or benefit from any property or asset owned, controlled or managed by the council. In the event that the chairperson of a council, on reasonable suspicion, is of the opinion that a provision of this stipulation has been breached, then the chairperson is obliged to:

- (a) Authorise an investigation of the facts and circumstances of the alleged breach;
- (b) Give the councillor a reasonable opportunity to reply in writing regarding the alleged breach; and
- (c) Report the matter to a meeting of the municipal council

The chairperson must furthermore, report the matter to the MEC for local government in the province concerned.

2.2.3.5 Competitive bidding

In the event that a Municipality decides to provide a municipal service through a service delivery agreement, it must select the service provider through selection processes, which, *inter alia*, minimise the possibility of fraud and corruption.

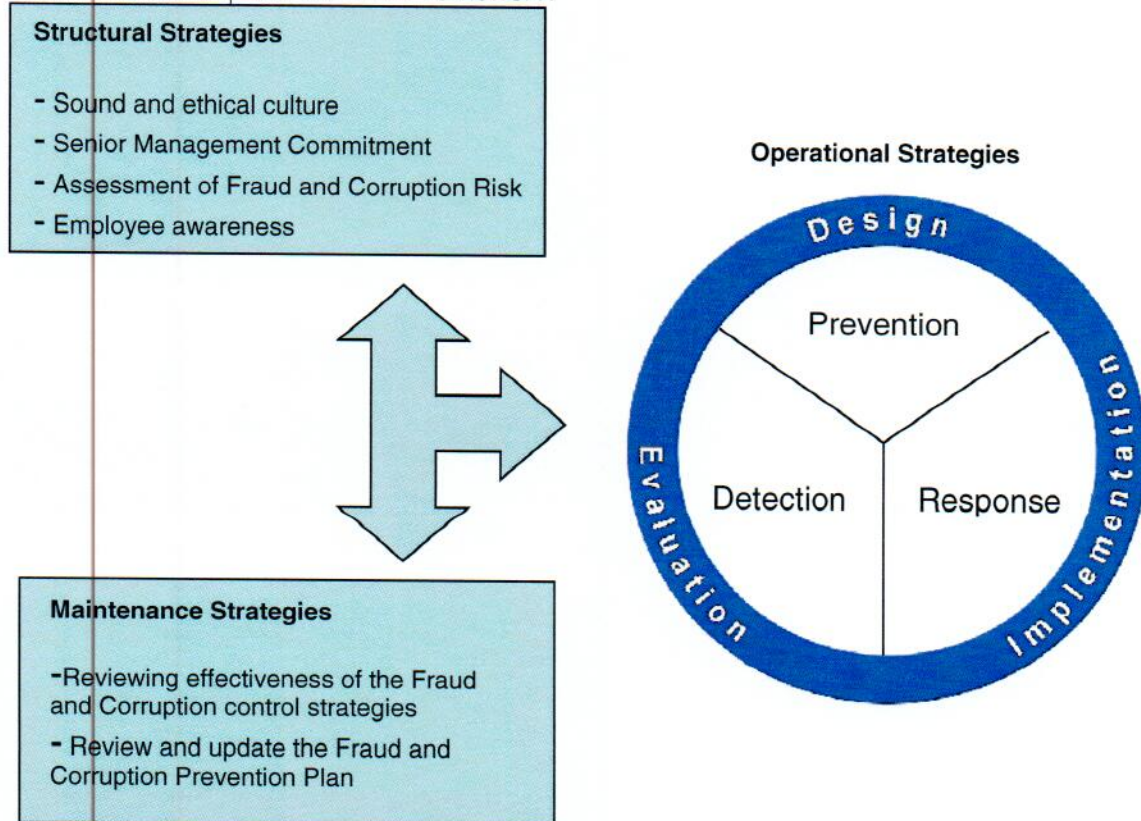
- f) Employing family members or close friends;
- g) Operating a private business in working hours;
- h) Stealing equipment or supplies from work;
- i) Accepting bribes or favours to process requests;
- j) Accepting bribes or favours for turning a blind eye to a service provider who does not provide an appropriate service;
- k) Submitting or processing false invoices from contractors or other service providers; and
- l) Misappropriating fees received from customers, and avoiding detection by not issuing receipts to those customers.

4 *Fraud and Corruption Control Strategies*

The approach in controlling fraud and corruption is focused into 3 areas, namely:

- j) Structural Strategies;
- k) Operational Strategies; and
- l) Maintenance Strategies.

Fraud and Corruption Control Framework



4.1 Structural Strategies

Structural Strategies represent the actions to be undertaken in order to address fraud and corruption at the Structural level.

4.1.1 Responsibilities for fraud and corruption risk management

The following section outlines the fraud and corruption risk management responsibilities associated with different roles within the Municipality.

4.1.1.1 *Municipal Manager*

The Municipal Manager bears the ultimate responsibility for fraud and corruption risk management within the Municipality. This includes the coordination of risk assessments,

overseeing the investigation of suspected fraud and corruption, and facilitation for the reporting of such instances.

4.1.1.2 Anti-Fraud and Corruption Committee

The role of the Anti-Fraud and Corruption Committee is to oversee the Municipality's approach to fraud prevention, fraud detection strategies and response to fraud and corruption incidents reported by employees or other external parties. This committee is a sub-committee of the Audit Committee and will be chaired by one of the independent members of the Audit Committee. The various Departments should have representation on this committee. The Internal Auditor is to be a compulsory member.

The Anti-Fraud and Corruption Committee will meet at least once a month to discuss the following issues:

- a) Progress made in respect of implementing the Anti-Fraud and Corruption Strategies and Fraud Prevention Plans;
- b) Reports received by the Municipality regarding fraud and corruption incidents with the view to making any recommendations to the Municipal Manager and Chairman of the Audit Committee;
- c) Reports on all investigations initiated and concluded; and
- d) All allegations received via the hotline.

Proceedings of such meetings will be minuted and such minutes circulated to the Municipal Manager and Chairman of the Audit Committee.

4.1.2 An ethical culture

The Municipality is required to conduct itself in an ethical and moral way. In this regard, the Municipal Systems Act No. 32 of 2000 (as amended) prescribes a Code of Conduct for Councillors (Schedule 1 to the Act) and a Code of Conduct for Municipal Employees (Schedule 2 to the Act).

Ethics are concerned with human character and conduct and deal with questions of right and wrong, appropriate and inappropriate behaviour and what constitutes good or evil. Ethical conduct is based on a set of principles referred to as values or norms. The collective ethical conduct of all the individual employees of a Municipality reflects the Municipality's ethical conduct. In this regard, the highest standards of ethics are required by employees when fulfilling their duties.

Good governance indicates that organisations should develop codes of conduct (ethics) as part of their corporate governance frameworks. Municipal employees are expected to abide by the Code of Conduct for Municipal Employees whilst Councillors in municipalities are expected to abide by the Code of Conduct for Councillors as per the Municipal Systems Act.

The Code of Conduct for Municipal staff contains specific standards categorised as follows:

- a) General Conduct;
- b) Commitment to serving the public interest;
- c) Personal gain;

The following is a more detailed summary of each of the steps of the risk assessment process as set out in the Figure above having regard to the particular application of the process to the assessment of fraud and corruption risk:

(i) Establishing the structure

This involves establishing an Anti-Fraud and Corruption Committee that will oversee the implementation of anti-fraud and corruption strategies and ensure that Fraud and Corruption Risk Assessments occur.

(ii) Identifying risk exposures

The objective of this phase is to generate a register (the Fraud and Corruption Risk Register) of all possible inherent risks for subsequent analysis. All inherent risks identified should be documented at this point regardless of whether a preliminary assessment concludes that internal controls currently in force will be fully effective in mitigating the risk. How each risk manifests itself should be documented as well as why it occurs.

(iii) Analysing the risk exposures

All internal controls that are currently in force and which would tend to have the effect of mitigating the risk of fraud and corruption under consideration will be recorded. The effectiveness of all mitigating internal controls will then be assessed. The assessment should conclude, in relation to each control, whether it is or is likely to be:

- a) Unsatisfactory; or
- b) Weak; or
- c) Satisfactory; or
- d) Good; or
- e) Very Good.

The assessment of each internal control considered should not represent an assessment of the control in terms of its ability to mitigate business risk generally. Rather, it is an assessment of that control's perceived impact on the specific fraud or corruption risk under consideration.

(iv) Evaluating the risk exposures

Each risk exposure will be evaluated (high, medium, low) and this will allow the Municipality to prioritise which risk exposures require immediate action.

(v) Implementing prevention plans

All fraud and corruption risks rated as "High" and "Extreme" will require the development and implementation of proposed action aimed at achieving one or more of the following:

- a) Alteration to existing internal control procedures;

- b) Introducing new internal control procedures; and
- c) Introducing procedures aimed at detecting and preventing fraud.

Proposed action may also be developed in relation to risks assessed as being of a lower level of residual risk. All actions proposed by the risk assessment team will be evaluated by senior management, as appropriate, prior to implementation. Implementation will also be monitored periodically by the Anti-Fraud and Corruption Committee.

4.1.5 Employee awareness

The main purpose of fraud and corruption awareness workshops/training is to assist in the prevention, detection and reporting of fraud and corruption by raising the level of awareness as to how fraud and corruption is manifested in the workplace. In this regard, all employees will receive training on the following:

- a) Anti-Fraud and Corruption strategy;
- b) Code of Conduct for Municipal employees;
- c) Whistle blowing policy;
- d) How to respond to fraud and corruption;
- e) Manifestations of fraud and corruption in the workplace.

The Fetakgomo Local Municipality has to identify the individual that would be responsible for employee awareness and that will arrange and schedule awareness sessions throughout the year.

4.2 Operational Strategies

4.2.1 Internal Controls

Internal controls are the first line of defence against fraud and corruption. While internal controls may not fully protect the Municipality against fraud and corruption, they are essential elements in the overall Anti-Fraud and Corruption Strategy.

All areas of operations require internal controls, for example:

- a) Physical controls (securing of assets);
- b) Authorisation controls (approval of expenditure);
- c) Supervisory controls (supervising day-to-day issues);
- d) Analysis of data;
- e) Monthly and annual financial statements;
- f) Reconciliation of bank statements, monthly; and
- g) Reconciliation of ledger accounts, monthly.

The Internal Audit Department will be responsible for implementing an internal audit program which will incorporate steps to ensure adherence to internal controls.

4.2.2 Prevention strategies

A number of combined initiatives result in an overall preventative environment in respect of fraud and corruption. These include the following:

4.2.2.1 Employee awareness:

Employee awareness of the Municipality's Anti-Fraud and Corruption Strategy, Code of Conduct, Whistle blowing policy and the manifestation of fraud and corruption in the workplace all assist in the creation of an environment which may be considered to be hostile to a would-be transgressor.

4.2.2.2 Pre-employment screening

Pre-employment screening will be carried out for all appointments, and evidence of such screening will be maintained by the HR Department. Consideration should be given to the following pre-employment screening:

- (a) Verification of identity (birth certificate, driver's licence).
- (b) Police criminal history.
- (c) Reference checks with the two most recent employers – this will normally require telephone contact.
- (d) A consideration of any gaps in employment history and the reasons for those gaps.
- (e) Verification of formal qualifications claimed.

The Municipality's policy of pre-employment screening will cover all new and promoted employees including those with administrative responsibilities or computer access. The screening will be performed by a person/people nominated by the Human Resources Department in conjunction with the Municipal Manager to ensure that screening is consistent and appropriately resourced throughout all Departments. Screening will be conducted in accordance with the classification of the employee or the levels of screening outlined below.

Where an employee is promoted into a management position and has not been screened during the course of the previous three years, the applicant will be re-screened. The levels of screening include:

Level 1 – All employees (including those with administrative functions or computer access)

- a) Verification of claimed educational qualifications;
- b) An independent reference check directly with two referees nominated by the applicant or previous employers; and
- c) Criminal history checks (after authorisation has been obtained from the prospective employee).

Level 2 – All Managers and above, IT and Finance staff

- a) All Level 1 checks;
- b) Employment history checks;
- c) Directorship and membership searches; and
- d) Insolvency/credit search.

- b) Post-transaction reviews: A review of transactions after they have been processed and completed can be effective in identifying fraudulent or corrupt activity. In addition to the possibility of detecting fraudulent transactions, such a strategy can also have a significant fraud prevention effect as the threat of detection may be enough to deter a staff member who would otherwise be motivated to engage in fraud and corruption;
- c) Forensic data analysis: The Municipality's computer system is an important source of information on fraudulent and sometimes corrupt conduct. Software applications will be used during internal audits, surprise audits and post-transaction reviews to assist in detecting any possible fraud and corruption; and
- d) Management accounting reporting review: Using relatively straightforward techniques in analysing the Municipality's management accounting reports, trends can be examined and investigated which may be indicative of fraudulent conduct. Some examples of the types of management accounting reports that can be utilised on a compare and contrast basis are:
 - 1. Budget reports for each division;
 - 2. Reports comparing expenditure against industry benchmarks; and
 - 3. Reports highlighting unusual trends in bad or doubtful debts.

The Municipality will implement a strategy to ensure appropriate management accounting report reviews are conducted.

4.2.3.2 External Audit

The Municipality recognises that the external audit function is an important control in the detection of fraud. The Chief Finance Officer will need to hold discussions with all engaged external auditors to ensure that due consideration is given, by the auditors, to ISA 240 *"The Auditors' Responsibility to Consider Fraud in the Audit of a Financial Statement"*.

4.2.4 Response strategies

4.2.4.1 Reporting fraud and corruption – a Whistle blowing policy

One of the key obstacles to fighting fraud and corruption is the fear by employees of being intimidated to identify or *"blow the whistle"* on fraudulent, corrupt or unethical practices witnessed in the work place. Those who often do *"blow the whistle"* end up being victimised and intimidated. For this reason, the Municipality has adopted a **Whistle Blowing Policy** setting out the detailed procedure which must be followed in order to report any incidents of fraud and/or corruption. This policy has been designed to comply with the provisions of the Protected Disclosures Act.

Any suspicion of fraud and corruption will be treated seriously and will be reviewed, analysed, and if warranted, investigated. If an employee becomes aware of a suspected fraud, corruption or any irregularity or unethical behaviour, such issues should be reported in terms of the Whistle Blowing Policy.

Where improvements are required, they should be implemented as soon as practicable.

4.6 Reporting fraud to police and / or external parties

The Municipal Manager will be responsible for reporting to the police, in circumstances in which there is evidence of fraud:

- a) An employee/volunteer of the Municipality;
- b) A client of the Municipality;
- c) A research grant recipient of the Municipality; or
- d) A supplier to the Municipality.

Reporting fraud to the police for investigation will be subject to the requirements as set out in the Municipal Finance Management Act and the Municipal Systems Act.

Any decision not to refer an allegation of fraud to the police for investigation (where there is sufficient evidence to justify making such a report) will be referred to the Audit Committee, together with the reasons for the decision.

Responsibility for complainant statements lodged with Police will be assigned on a case by case basis by the Municipal Manager in consultation with the investigator.

Recovery and other remedies

The Municipality has adopted a policy wherein it will actively pursue the recovery of any money or property lost through fraud, provided there is a strong prospect of a net benefit to the Municipality from such action.

Where it is considered appropriate that the matter not be reported to the police, the Municipality reserves its right to pursue a range of other remedies including appropriate disciplinary action. Any disciplinary action pursued will be done in accordance with the Disciplinary procedures.

Exit interviews and exit checklist procedures will be performed in the event of dismissal from the Municipality for misconduct or fraud. This is necessary to ensure that factors contributing to misconduct and fraudulent activity by municipal employees can be managed as a process to mitigate fraud risk.

Fraud and Corruption Prevention Plan

Fraud and Corruption Risk Assessments were conducted. The assessments were performed by way of interviews with senior members of the Municipal staff, including the Municipal Manager, following the interviews, by way of a workshop with delegates chosen by the Municipality, from various levels within the Municipality.

The purpose behind the interviews was to establish how the Municipality functioned, the duties and responsibilities of the interviewed personnel and the elements of fraud that each interviewee perceived the Municipality to be exposed to. Discussions also included controls currently in place to counter the exposures and the effectiveness of those controls.

The purpose behind the workshop process was to enable the delegates representing a cross section of Municipal employees, an opportunity to discuss the exposures raised by their senior managers and also to raise any other elements of fraud that the Municipality is exposed to, the controls, if any, in place and the effectiveness of those controls.

During the course of the workshop, all fraud exposures identified were discussed. Each risk was discussed under the following headings:

- a) Volume of Transactions;
- b) Internal control effectiveness;
- c) Nature of potential loss;
- d) Likelihood;
- e) Potential quantum of loss;
- f) Impact on reputation;
- g) Level of disruption;
- h) Overall impact; and
- i) Residual risk.

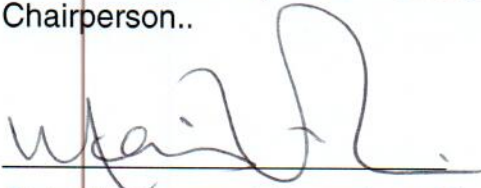
The aspects highlighted in bold type are established automatically once the preceding aspects have been considered and evaluated.

Once all ratings, which vary from Catastrophic to Low, have been completed, a fraud risk register (Appendix B) can be produced and a related "heat map" (Appendix A) which is a diagrammatic representation of the categorised fraud risks that have been subject to consideration.

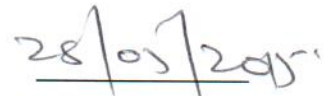
As indicated under the section dealing with Maintenance Strategies, Fraud and Corruption Risk Assessments need to be conducted on at least an annual basis and the Fraud and Corruption Prevention Plan updated accordingly.

5. Approval

Fetakgomo Local Municipality's Fraud and Corruption Prevention Strategy is recommended by the Chairperson of Risk Management Committee Chairperson..



Risk Management Committee Chairperson

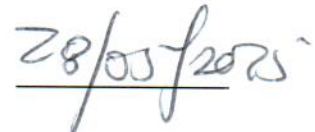


Date

Approved by:



FTM Council (Speaker)



Date

C100/2015

28 May 2015

Council resolution number

Date